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Tax Features

Foundation Sponsors Economic Conference In Moscow; Leads Corporate Delegation

The Tax Foundation will cosponsor the US-USSR Conference on Trade and Bilateral Economic Relations to be held in the Kremlin in Moscow November 30–December 8, 1991. Tax Foundation Co-Chairman James C. Miller III will co-chair the conference along with Arkady Volsky, Director of the League of Scientific and Industrial Associations. Soviet President Mikhail Gorbachev and Russian President Boris Yeltsin are expected to address the conference.

Recent deregulation making foreign investment more attractive, along with the long-term initiative of bringing business and economic education to the youth of the Soviet Union, make this conference an important event to the delegates, to the people of the Soviet Union, and ultimately to the world.

Several hundred business leaders, entrepreneurs, academicians and policymakers from both the Soviet Union and the United States will attend the conference, which will include manufacturing site visits and other opportunities for them to acquire insight into the state of the economy and its prospects for investment. Interested parties should call the Foundation at 202-863-7651.

American delegates will be mostly corporate chief executives invited by the Tax Foundation. The Foundation's additional role is to assemble faculty members who will conduct seminars and panel discussions. At the plenary session, the American speakers will include James C. Miller III; James B. Hayes, Publisher of *Fortune*; John Sculley, Chairman & CEO of Apple Computer, Inc.; and senior U.S. government officials.

The conference comes at a pivotal time in the Soviet Union's transition to a market economy. The recent deregulation making foreign investment more attractive, along with the long-term initiative of bringing business and economic education to the youth of the Soviet Union, make this conference an important event to the delegates, to the people of the Soviet Union, and ultimately to the world. ■

Tax Foundation

IN THIS ISSUE

Moscow Conference	1
"Front Burner"	1
Baucus to Receive Award	3
Pennsylvania Tax Policy Seminar	3
Typical U.S. Family's Income	4
State Taxes & Rates	7
Foundation Message	7

FRONT BURNER

Enterprise Zones: A Development Alternative

Rep. Charles B. Rangel

The concept of enterprise zones has been floating around for several years. It originated in Great Britain where it was tried with some moderate success by the Thatcher government. It was brought to America by Jack Kemp when he was a Member of Congress, and he found a willing ally in then South Bronx Congressman Bob Garcia.

The underlying theory of enterprise zones is that economically moribund communities can be developed better by private sector investment than by government bureaucracy. Instead of government grants with bells and whistles, regulations, and political competition for those who are to receive government largess, an enterprise zone program sets forth benefits, usually as tax relief, and allows whoever qualifies to take advantage of them. It should have no application process and little or no bureaucracy. It is meant to be an efficient partnership of the public and private sectors.

As the idea has evolved, an enterprise zone program is a package of tax and other incentives designed primarily to encourage small businesses to locate or expand in the chosen zones. The incentives should be designed to facilitate the raising of capital and improvement of cash flow. These two goals are essential for small businesses. The most persistent financial problems for small businesses in their formative years, especially for minority entrepreneurs, are raising capital to get started and maintaining an adequate cash flow to keep operating. Examples of incentives to meet these needs are wage credits designed to lower payroll costs

See Rangel on page 2

Representative Charles B. Rangel, Democrat from New York's 16th district, is a member of the House Ways and Means Committee and Chairman of its Subcommittee on Select Revenue Measures.

The opinions expressed in the Front Burner are not necessarily those of the Tax Foundation. Editorial replies are encouraged.

Rangel from page 1

and favorable capital gains treatment and deductions for investors to bring in capital.

To maximize the partnership between the Federal program and state and local governments, criteria for choosing zones should be partly based on the level of state and local support for the zone. Besides tax incentives, the state and local governments could improve infrastructure, education and provide utility discounts among other incentives.

The underlying theory of enterprise zones is that economically moribund communities can be developed better by private sector investment than by government bureaucracy.

While getting its first exposure during the Reagan years, enterprise zones received only limited support from President Reagan's Administration. The only serious Congressional response during the 1980s was the passage of a provision to allow the Secretary of Housing and Urban Development (HUD) to designate enterprise zones. No incentives were provided for these zones.

All the while, 37 states established with varied success their own enterprise zone programs. But the states simply could not provide enough in the way of tax and other incentives to motivate enough businesses to move into a zone.

With the election of President Bush and selection of Jack Kemp as HUD Secretary, enterprise zones were given new life. Secretary Kemp announced that enterprise zones would be a keystone of his effort to revitalize urban development, and the President included an enterprise zone proposal in his initial budget. It called for a modest program for 25 zones costing about $1.5 billion over five years.

Former House Speaker Jim Wright, who believed there were many Democrats who shared Kemp's view, asked me to spearhead the Democratic effort on enterprise zones. I introduced H.R. 6. It was based on the Kemp-Garcia bills of past Congresses and was introduced to gain public support for the concept. While it offered several incentives, it was unrealistic because it would have probably resulted in an unacceptably high revenue loss before any return could be expected from the revitalized zones. With Secretary Kemp's help in promoting the bill, it gained over 220 cosponsors in the House.

When it became clear by early 1990 that the concept had broad support in the House, Ways & Means Committee Chairman Dan Rostenkowski convened hearings on the matter and in response drafted his own legislation. He designed a program to cost no more than the $1.5 billion over five years that the President had offered in his budget.

An enterprise zone program should have no application process and little or no bureaucracy.

Chairman Rostenkowski's proposal is somewhat different from Secretary Kemp's concept. While the incentives are similar and there is also a strong emphasis on the participation of the state and local governments, the Chairman's proposal assumes that there must be limits put on incentives in any zone to insure that the estimate of $1.5 billion over five years is not exceeded. He is convinced that without limits on incentives for each zone, the program's costs could skyrocket and cause unacceptably high revenue losses in the early years of the program.

The Rostenkowski proposal limits zones to 11 square miles and caps the amount of benefits that can be claimed annually in each zone. To allocate the benefits, the state or local government administering the zone would have to appoint a program director, or as some have called the position, a "Zone Czar."

While Secretary Kemp accepts the area limitation, he is completely at odds with the idea of dollar limitations on the benefits that can be claimed in a zone and the appointment of a "Zone Czar."

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He views the involvement of the bureaucracy as counteracting the effort to empower entrepreneurs to make their own decisions. The idea of limits and a Czar are not fundamental to the Chairman's view of the program. His position is born out of the President's reluctance to spend on the program and the belief that without the limitations, the amount budgeted would surely be exceeded.

I am confident a compromise can be reached for future consideration. Hopefully, when an agreement is reached on raising revenues to pay for other vital programs, enterprise zones will be part of the package. I look forward to seeing this experiment work. It could open an avenue to prosperity in communities where despair is now the prevalent feeling. ■

Correction

Our July issue incorrectly reported the testimony of James J. Renier, chairman and chief executive officer of Honeywell Inc, at the Ways and Means Committee's hearings on international competitiveness. It should have said that Honeywell is now a stronger international competitor due to a fundamental restructuring in 1986, not due to the restructuring of the tax code that took place that year.

Mark Your Calendars

November 20, 1991
for the
Tax Foundation's
54th Annual Dinner &
43rd National Conference
at the Waldorf-Astoria
in
New York City

Senator Baucus to Receive Distinguished Service Award for the Public Sector

Sen. Max Baucus

Max Baucus, Democratic Senator from Montana, will receive the Tax Foundation's 1991 Distinguished Service Award for the Public Sector at the Foundation's annual dinner to be held on November 20 in New York City. A major policy address by the senator will follow his acceptance.

Senator Baucus is the third ranking Democrat on the Senate Finance Committee, serves on its subcommittee on taxation, and chairs its subcommittee on international trade.

He has been extremely active of late in the area of tax code simplification. He has sponsored the Payroll Tax Deposit Simplification Act of 1991, which could benefit small and medium-sized businesses by drastically streamlining the payment schedule of payroll taxes. For example, current law calls for payment of a $3,000 per month liability within three banking days after the 3rd, 7th, 11th, 15th, 19th, 22nd, 25th, and last day of the month. Senator Baucus's proposal would require liabilities of any amount less than $6,000 per month to be deposited by the 15th day of the next month.

Nor has his work in simplification ignored the concerns of large multinational corporations. With the Foreign Tax Simplification Act of 1991, he proposes to reduce compliance costs and administrative burdens in connection with U.S. taxation of foreign income, and to change the PFIC test from one based on gross income to one based on gross receipts, just to name two of its provisions.

Senator Baucus was born in Helena, Montana in 1941. He graduated from Stanford University with a B.A. in economics and received his LL.B. from Stanford Law School in 1967. He was elected to the U.S. House of Representatives in 1974 where he served two terms. He won his current seat in the Senate in 1978 and was reelected in 1984 and 1990. ■

Next in Series of State Tax Policy Seminars To Be Held in Pittsburgh October 8

The recent fiscal crisis in Pennsylvania has intensified the debate over sound tax and budget policies. To provide a forum for continuing this debate, the Tax Foundation has collaborated with several organizations to assemble state fiscal policy experts on Tuesday, October 8. Speaking to the theme *Pennsylvania Tax Policy: The Outlook for Economic Growth*, the panelists will examine the economic impact of tax changes and spending limitations as well as the outlook for future fiscal policy initiatives. Co-sponsors include the Allegheny Tax Society, The Commonwealth Foundation, the Greater Pittsburgh Chamber of Commerce, the Pennsylvania Business Roundtable, the Pennsylvania Chamber of Business and Industry, the Pennsylvania Economy League, Inc., the Philip Morris Companies, the Pittsburgh Tax Club, and the Tax Executives Institute, Inc., Pittsburgh Chapter.

8:30 a.m. Registration/Coffee

9:00-11:45

Welcome:
Dan Witt, Executive Director
Tax Foundation

Moderator:
William Flanagan, Money Editor
KDKA - TV

Speakers:
Catherine Baker Knoll, Treasurer
State of Pennsylvania

John Dankosky, Executive Director
Pennsylvania Business Roundtable

*Michael H. Herschock
Budget Secretary
State of Pennsylvania

Prof. Kevin C. Sontheimer
Chairman of Economics
University of Pittsburgh

Paul Flora, Regional Economist
PNC Financial Corp.

Don Eberly, President
The Commonwealth Foundation

Lewis B. Lee, Director - State Division
Pennsylvania Economy League, Inc.

Albert E. Germain,
Vice President Taxes & Tax Counsel
ALCOA

John D. Luffe, Director of U.S. Taxes
PPG Industries, Inc.
Chairman, Tax Committee, Pennsylvania Chamber of Business & Industry

Robert P. Strauss,
School of Urban and Public Affairs
Carnegie Mellon University

Charles L. Potter, Partner; CPA
Rose, Schmidt, Hasley & DiSalle

12:00-1:30 Luncheon
John Fund, Editorial Writer
Wall Street Journal

*Congressman Rick Santorum (R-PA)
U.S. House of Representatives

*Invited

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Company/Organization _____

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City _____ **State** _____ **Zip** _____

- **All inquiries: Sandy Chiong at 202-863-7651 or fax: 202-488-8282**
- **Congressional and General Assembly staff and media complimentary.**
- **For hotel information, contact the Westin William Penn Hotel : Phone: 412-281-7100 or 800-228-3000 • Fax: 412-553-5239**

Register by phone, fax, or mail.
Send $35 check payable to *Tax Foundation Seminar* with registration form to:
Tax Foundation
470 L'Enfant Plaza, SW, Suite #7400
Washington, DC 20024

Typical Family $362 Poorer in 1991 Due to Rising Federal Taxes and Inflation; Taxes Dominate Family Budget

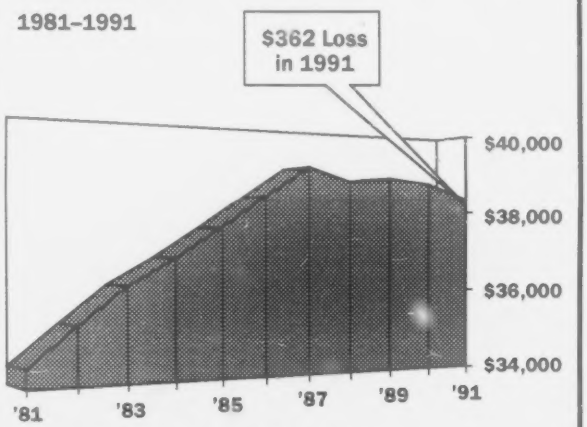
Accelerating federal taxes will combine with inflation to reduce the purchasing power of the American family by $362 dollars in 1991, according to a Tax Foundation Issue Brief titled *American Family Losing Ground to Taxes and Inflation* by Paul G. Merski. The typical family — a household with two earners employed full-time, year-round with two dependent children — will suffer this loss in real income in 1991 after losing purchasing power in two of the three prior years for a 4-year loss of $695 since 1988. The $362 loss this year is the largest one-year decline since 1981 (see figure 1 and table 1).

The two-earner family making $29,627 back in 1980 is now earning $53,265. But when federal taxes and inflation have taken their cuts from this $23,638 increase, a mere $2,835 net gain is left, nearly a 90 percent loss.

Figure 1

Median Family Income After Federal Taxes and Inflation

1981–1991



Source: Tax Foundation (see table below).

The Bite of Direct Federal Taxes

Since 1980, the typical family's federal income tax bill has risen 60 percent despite two major income tax rate reductions: the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986. They did lighten the income tax burden, but their benefits to the typical family have been overwhelmed, principally by the rising toll of the Social Security tax. Six times since 1981, the Social Security tax rate has increased so that it now takes in 7.65 percent of the family's earnings, up from 6.1 percent in 1980. The level of earnings to which this tax is applied has also been ratcheted up due to automatic inflation adjustments. The combination of higher rates and a broader base has enlarged the bite that Social Security takes out of the typical family's income to $4,075 in 1991.

Combined, income and Social Security taxes will absorb 19.8 percent of family income in 1991, down only slightly from the 1981 peak of 20.3 percent. The federal income tax, which claimed 13.7 percent of the family's total income in 1980, fell to a low of 11.8 percent in 1985 before rising to its present 12.2 percent level. The family made its biggest gains in the mid-1980s when real income rose an average of $768 per year between 1982 and 1987 (see figure 2).

Table 1

Two-Earner Median Family Income Before and After Direct and Indirect Federal Taxes and Inflation

1980–1991

		Federal Taxes				After-Tax Income		
		Direct Taxes						
Year	Two-earner median family income [a]	Income Tax[b]	Social Security	Indirect Taxes[c]	Total	Current Dollars	1991 Dollars[d]	1991 Income Gain/(Loss)
1980	$ 29,627	$ 4,050	$ 1,816	$ 2,149	$ 8,015	$ 21,612	$ 35,512	-
1981	32,224	4,386	2,143	2,579	9,108	23,116	34,432	($ 1,080)
1982	34,515	4,450	2,313	2,564	9,327	25,188	35,341	909
1983	36,106	4,300	2,419	2,752	9,471	26,635	36,209	868
1984	38,713	4,634	2,710	3,108	10,452	28,261	36,829	620
1985	40,593	4,787	2,862	3,098	10,747	29,846	37,557	728
1986	42,492	5,158	3,038	3,285	11,481	31,011	38,311	753
1987	44,536	5,291	3,184	3,305	11,780	32,756	39,042	731
1988	46,658	5,618	3,504	3,714	12,836	33,822	38,711	(331)
1989	49,090	6,022	3,687	3,812	13,521	35,569	38,839	128
1990	52,011	6,527	3,979	4,140	14,646	37,365	38,709	(130)
1991 e	53,265	6,493	4,075	4,350	14,918	38,347	38,347	(362)

[a] Median income for household with two earners employed full-time, year-round.

[b] Married couple filing joint return, two dependent children.

[c] Estimated average indirect federal taxes. Includes excise taxes, employer's share of Social Security taxes, and miscellaneous levies.

[d] Adjusted by consumer price index (CPI-U), estimated 3.6 % inflation in 1991.

e Estimates based on first quarter 1991 statistics.

Sources: Tax Foundation; U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; U.S. Treasury Department, Internal Revenue Service.

Indirect Federal Taxes

Individual income taxes and Social Security "contributions" are direct federal taxes which appear as withheld income on the typical American worker's paycheck. But they are only part of the federal tax take. Numerous federal taxes are indirect; that is, government imposes them directly on industry. This can mean lower wages for workers, higher prices for consumers, and lower returns for investors. Some examples of these indirect taxes are the employer's share of Social Security taxes; excise taxes on products and services such as gasoline, liquor, tobacco, and telephone use; and miscellaneous taxes. All together, these claim a significant portion of the typical family's earnings.

Last year's budget agreement, the Omnibus Budget Reconciliation Act of 1990, increased many of these indirect taxes, notably on gasoline (9 to 14 cents per gallon), cigarettes (16 to 20 cents per pack), beer (16 to 32 cents per 6-pack), wine (3 to 21 cents per bottle), and the telephone excise tax (permanently 3 percent). While the amount of these taxes varies with each family's income and consumption patterns, the typical family examined here will pay an estimated $4,350 in indirect federal taxes in 1991. That adds up to a record-high 8.2 percent of the family's 1991 earnings.

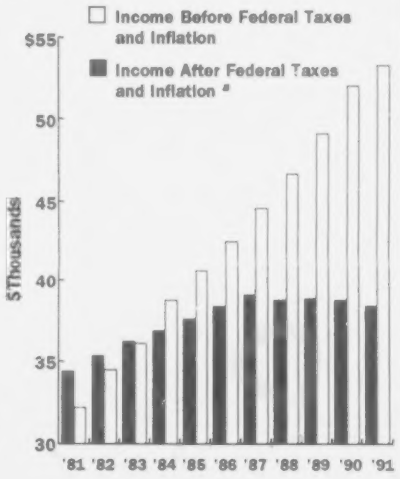
The Impact of Inflation

The upswing in inflation is another reason for the decline in the typical family's purchasing power in 1991. Inflation, which stood at 13.5 percent in 1980, declined steadily to a low of 1.9 percent in 1986, giving the growth rate in family income a chance to grow in real terms. Inflation has accelerated since 1986, however, and it is estimated at 3.6 percent for 1991. It was relatively low during the first half of 1991, but the economic slowdown that began in the last quarter of 1990 has severely reduced the average American family's income growth.

Figure 2

Family Income Before/After Federal Taxes and Inflation

1981–1991



(a) Income after federal taxes and inflation computed in 1991 dollars.
Source: Tax Foundation

How the Family Spends What's Left

The family's first obligation after federal taxes is to state and local governments, which will collect an estimated $5,273 in taxes, making government's total cost to the average family a hefty 37.9 percent of all income, by far the largest item in the family budget (see figure 3). After paying all federal, state and local taxes, from its $53,265 annual earnings, the family is left with $33,074 in disposable income to spend or save.

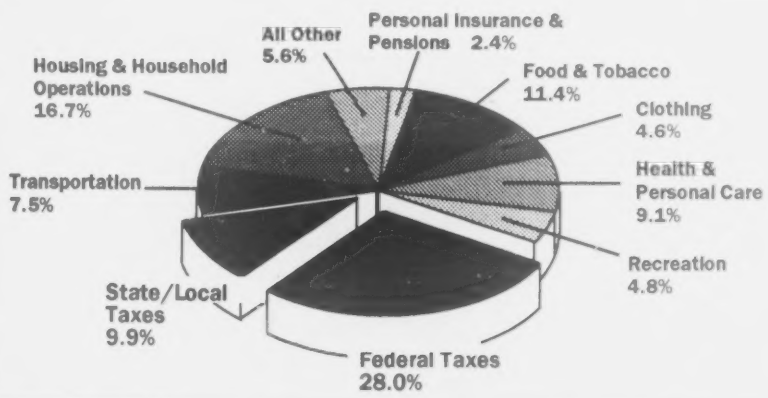
The family spends the bulk of its disposable income on four items: housing and household operations - 16.7 percent; food and tobacco - 11.4 percent; health care - 9.1 percent; and transportation - 7.5 percent. After taxes and these expenses, less than 18 percent of the family's income is left for such items as clothing, recreation and savings.

Outlook for the Family

Despite the typical family's record-high tax payments in 1991, persistent federal deficits of over $300 billion will keep the pressure on to increase federal tax revenues. Sharp tax increases recently enacted in many states will continue to tap the family's disposable income over the next several years. These tax increase pressures, along with the upswing in inflation and slower income growth, do not bode well for the American family's purchasing power in the coming years. ■

Figure 3

Typical American Family Budget in 1991[a]



Spending Category	Dollar Amount	Percent of Income
Family Income	$53,265	100.0%
Total Taxes	20,191	37.9
Federal Taxes	14,918	28.0
State and Local Taxes	5,273	9.9
After Tax Income	33,074	62.1
Total Personal Consumption Expenditures	33,074	62.1
Housing and Household Operations	8,920	16.7
Food and Tobacco	6,056	11.4
Health/Personal care	4,849	9.1
Transportation	4,009	7.5
Recreation	2,543	4.8
Clothing	2,454	4.6
Personal Insurance and Pensions	1,254	2.4
All Other	2,989	5.6

[a] Typical defined as a two earner family earning $53,265 per year with two dependent children.

Major State Taxes and Rates

as of August 1, 1991

State	Income Taxes: Corporate	Income Taxes: Individual	General Sales and Use Tax	Gasoline Tax (per gallon)	Cigarette Tax (per pack of 20)	Property Tax
Alabama	5% (F)	2 to 5% (F)	4% (a)	11 cents	16.5 cents	X
Alaska	1 to 9.4	none	none	8	29	X
Arizona	9.3	3.8 to 7	5 (a)	18	18	X
Arkansas	1 to 6.5	1 to 7	4.5 (a)	18.5	22	X
California	9.3 (c)	1 to 11 (c)	6 (a,d)	15 (b)	35	X
Colorado	5 to 5.2 (d)	5 (c)	3 (a)	22	20	X
Connecticut	11.5 (f)	4.5 (g)	8 (d)	23 (b)	40 (b)	X
Delaware	8.7 (w)	3.2 to 7.7	none	19 (l)	24	
District of Columbia	10 (f)	6 to 9.5 (f)	6	18	30	X
Florida	5.5 (c)	none	6 (a)	4 (r)	33.9	X
Georgia	6% of taxable net income	1 to 6	4 (a)	7.5 + 3% of retail	12	X
Hawaii	4.4 to 6.4	2 to 10	4 (a)	24.8 to 32.5 (v)	40% of wholesale	
Idaho	8	2 to 8.2	5	22 (v)	18	X
Illinois	4.8 (h)	3 (h)	6.25 (a)	19 (d,w)	30	X
Indiana	3.4 (l)	3.4	5	15	15.5	X
Iowa	6 to 12 (F,j)	.4 to 9.98 (c,F)	4 (a)	20	36	
Kansas	4.5 (f)	3.65 to 5.15 (k)	4.25 (a)	17 (b)	24	X
Kentucky	4 to 8.25	2 to 6	6 (a)	15 (e)	3	X
Louisiana	4 to 8 (F)	2 to 6 (F)	4 (a)	20	20	X
Maine	3.5 to 8.93	2 to 8.5 (o)	6 (d)	19	37	X
Maryland	7	2 to 5	5	18.5	16	X
Massachusetts	9.5 (e,m)	6.25 (n)	5	21 (e)	26	X
Michigan	2.35	4.6	4	15	25	X
Minnesota	9.8 (c)	6 to 8.5	6.5 (a,d)	20.25	43	X
Mississippi	3 to 5	3 to 5	6	18 (d)	18	X
Missouri	5 to 6.5 (d,F)	1.5 to 6 (F)	4.225 (a,d)	11	13	X
Montana	6.75 (f,s)	2 to 11 (F)	none	20	18	X
Nebraska	5.58 to 7.81	2.37 to 6.92	5 (a)	23.71 (v)	27	X
Nevada	none	none	5.75 (a,b)	18	35	X
New Hampshire	8	5 (g)	none	18	25	X
New Jersey	9 (f,t)	2 to 7	7	10.5	40	X
New Mexico	4.8 to 7.6	1.8 to 8.5	5	16.2	15	X
New York	9 (c,d,e,f,u)	4 to 7.875 (d,p)	4 (a)	8	39	
North Carolina	7.75 (f)	6 to 7.75	4 (a)	22.6 (v)	5	X
North Dakota	3 to 10.5 (c,F)	2.67 to 12 (F,q)	5	17 (d)	29	X
Ohio	5.1 to 8.9	.743 to 6.9	5 (a)	21 (v)	18	X
Oklahoma	6	.5 to 7 (k,F)	4.5 (a)	16 (e)	23	
Oregon	6.6	5 to 9 (F)	none	20	28	X
Pennsylvania	12.25	3.1 (d)	6 (a)	12	31	X
Rhode Island	9 (f)	27.5 % of modified Federal income tax	7	26 (e)	37	X
South Carolina	5	2.5 to 7	5 (a)	16	7	X
South Dakota	none	none	4 (a)	18	23	
Tennessee	6 (g)	6 (g)	5.5 (a)	21 (w)	13	
Texas	none	none	6.25 (a)	20	41	
Vermont	5.5 to 8.25	28% of federal income tax liability (d,o)	5	15	18 (b)	X
Virginia	6	2 to 5.75	3.5 (a)	17.5	2.5	X
West Virginia	9.15	3 to 6.5 (c)	6	15.5	17	X
Washington	none	none	6.5 (a)	23 (l)	34 (d)	X
Wisconsin	7.9	4.9 to 6.93	5 (a)	22.5 (l)	30 (e)	X
Wyoming	none	none	3 (a)	9 (l)	12	X

(X) Indicates property tax levied.
(F) Allows federal income tax as a deduction.

(a) Local taxes are additional.
(b) Future increases scheduled under current law. As of October 1, 1991, CT gas tax -25 cents, and cigarette tax - 45 cents.
(c) Alternative minimum tax is imposed.
(d) Future reductions scheduled under current law. CT sales tax drops to 6% October 1,1991.
(e) Alternative methods of calculation may be required.
(f) Corporate surtax is imposed, CT - 20%, DC - 5%, KS - 2.25%, NJ - .375%, NY - 15%, NC - 4%, ME - 10%, MT - 5%, RI - 11%. CT surtax scheduled to decrease to 10% in 1992 and be eliminated in 1993.
(g) In NH and TN, rates apply to income from dividends and interest. In CT, lower rates applied to income from interest and dividends. Additional changes in deductions also added in 1991 for CT.
(h) Additional 1.5-2.5% personal property replacement tax imposed.
(i) A supplemental net income tax is imposed at 4.5%.
(j) Franchise tax is 5% of taxable net income.
(k) In KS and OK, higher rates may apply to taxpayers deducting federal income tax.
(l) Tax rate is periodically adjusted administratively.
(m) Excise tax is imposed equal to the greater of (a) $2.60 (includes surtax) per $1,000 of value of MA tangible property not taxed locally or net worth allocated to MA, plus 9.5% (includes surtax) of net income, or (b) $400.
(n) Tax of 12% on income derived from interest, dividends, and capital gains.
(o) Income surtax imposed, ME - 5-15%, VT - 3-6%.
(p) Qualified taxpayers may elect to pay alternative taxes at varying rates.
(q) Election to be taxed on 14% of taxpayer's federal income tax liability.
(r) Additional county transportation tax levied.
(s) 7% rate for corporations using "water's edge" apportionment.
(t) A 7.25 % corporation income tax is imposed on entire net income of foreign corporations not subject to the corporation business tax.
(u) Small business taxpayers are subject to a lower rate.
(v) Includes additional taxes or fees. Hawaii gas rates include county rates.
(w) Additional tax or surcharge imposed.
Sources: Compiled by Tax Foundation from survey of state revenue offices and data reported by Commerce Clearing House through July 1, 1991.

Thirty States Will Raise $17 Billion in New FY'92 Taxes

State legislative sessions have staggered to a close around the country, with thirty states increasing tax rates for FY1992. This will raise a total of more than $17 billion in new taxes, according to a new Special Report titled *Survey of State Taxes and Rates 1991* by Gregory Leong.

Gasoline and tobacco were the most popular targets as 23 states hiked the amounts they collect at the pump and 14 states raised their cigarette excises. The bulk of the new revenue will not come from excises, however, but rather from higher sales taxes in six states, and higher personal income taxes in eight states. Additionally, six states hiked corporate income tax rates. Only seven of the fifty states, Colorado, Connecticut, Kansas, North Dakota, Oklahoma, South Carolina, and West Virginia lowered any tax rates for the new fiscal year.

Individual Income Taxes

Eight states raised individual income tax rates, the most notable of which was Connecticut's new income tax. Texas and Tennessee also contemplated enacting an income tax, but Connecticut was the only state to do so. Connecticut lawmakers repealed the taxes on capital gains, dividends, and interest income and replaced them with a flat 4.5 percent income tax that is estimated to bring in $1.4 billion in additional FY'92 revenues. Rhode Island and Vermont, which base their income tax on federal tax liability, also hiked their rates. Pennsylvania raised its flat rate from 2.1 to 3.1 percent while California, Massachusetts, Nebraska, and North Carolina raised their marginal rates for top income earners.

Gasoline and tobacco were the most popular targets as 22 states hiked the amounts they collect at the pump and 14 states raised their cigarette excises.

Rates in three states, Kansas, Oklahoma, and South Carolina, dropped for FY'92. South Carolina enacted the final phase of a previously passed income tax reduction, lowering the bottom marginal rate from 3 to 2.5 percent.

Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming retain the distinction of being the only seven states which levy no individual income tax. Tennessee and New Hampshire exempt wages and salaries but tax income from interest and dividends. The six states which use a flat tax rate for all income — Colorado, Illinois, Indiana, Massachusetts, Michigan, and Pennsylvania — will be joined by Connecticut in

See State Taxes on page 8

FOUNDATION MESSAGE

Moscow Business Conference Promotes Long-Term U.S. Competitiveness

Dan Witt
Executive Director

While headlines focus on the tidal wave of political transformations that are taking place from Cuba to Cambodia after the fall of the Soviet Union's communist party, it is time for America to capitalize on the changes. International trade is becoming a larger part of every nation's economy, and interdependence across national borders is now a dominant feature of the corporate landscape. Therefore, it is vital for the sake of corporate efficiency and economic growth for U.S. tax policy to be neutral with respect to international transactions. Promotion of this concept is one of the primary goals of the Tax Foundation's international tax assessment project.

Naturally, even if the U.S. achieves this goal, it cannot single-handedly create international tax harmony — the posture of other nations' tax policies affects our own and must be addressed. The Tax Foundation has conducted numerous programs that have brought together tax executives of U.S.- and foreign-based multinational corporations, university scholars, and U.S. government officials to discuss these issues. But foreign government officials also need to be apprised of our perspective on international taxation. Of course, they know from official statements and actions the position of the U.S. government, and they regularly hear from their own taxpayers. But in a global economy, it is entirely appropriate and necessary for independent programs like those of the Tax Foundation to provide an objective forum where foreign government officials can hear from another group who must live with the consequences of their tax policy — American taxpayers.

One such effort was a series of conferences in the European Community last January. The Foundation led a delegation, which included corporate tax executives and staff members from the House Ways and Means Committee, the Senate Finance Committee, and the Joint Tax Committee, to meet senior government finance officials in London, Paris, Bonn, and Brussels. These meetings were especially successful in promoting mutual understanding among fiscal authorities of our concepts of taxation.

December's trip to Moscow (see p. 1) has, of course, a much broader mission. Tax Foundation Co-Chairman James C. Miller III will lead the Foundation's corporate members in an effort to educate Soviet businessmen, government officials, and students on the creation of economic growth through entrepreneurial activity. The mixture of programs will include panel sessions on such complexities as international tax treaties, as well as plenary sessions on such basic free market concepts as banking, capital formation, and private property.

It is not inconceivable that the Soviet Union will someday be a major U.S. trading partner like the Western European nations we visited in January. By helping to lay the groundwork now for a sound economic structure in the Soviet Union, the Tax Foundation is building hope for the world's economic future.

State Taxes from page 7

October 1991. In the remaining 34 states and the District of Columbia, income tax rate schedules remain progressive.

Corporate Income Taxes

Six states — Arkansas, Kentucky, Minnesota, Nebraska, North Carolina, and Pennsylvania — raised corporate income tax rates for FY'92 while two states, Colorado and West Virginia, lowered them. Pennsylvania enacted the largest percentage increase, 44 percent, and consequently has the highest marginal corporate tax rate in the nation, 12.25 percent.

Texas and Tennessee also contemplated enacting an income tax, but Connecticut was the only state to do so.

Iowa's 12 percent rate is now second highest, followed by North Dakota, 10.5 percent, and Minnesota, 9.8 percent. (This ranking is based solely on marginal tax rates and does take into account either surtaxes or alternative minimum taxes, where imposed.) Five states levy no corporate income tax: Nevada, South Dakota, Texas, Washington, and Wyoming.

Sales Taxes

Since sales taxes are the mainstay of revenue for the states, many states continued to increase rates or broaden the taxable bases by subjecting more goods and services to the tax. Six states — Arkansas, California, Maine, Minnesota, North Carolina, and Vermont — increased their sales tax for FY'92. The most notable changes occurred in California and Connecticut. California imposed the largest rate increase, from 4.75 to 6 percent. Connecticut, which had the highest sales tax in the nation last year, 8 percent, will reduce its rate to 6 percent, effective October 1, 1991. New Jersey and Rhode Island now lead the nation with sales tax rates of 7 percent, followed by Minnesota and Washington, 6.5 percent, and Illinois and Texas, 6.25 percent. Five states — Alaska, Delaware, Montana, New Hampshire, and Oregon — do not impose a sales and use tax.

Excise Taxes

Motor Fuels Tax

Excise taxes were a focus in almost all the legislatures, especially motor fuels (23 states) and cigarettes (14 states). California and Rhode Island enacted the largest motor fuel tax increases, both raising it six cents per gallon. Hawaii added five cents per gallon and still imposes the highest gasoline tax in the nation — the combined state-local tax ranges from 24.8 to 32.5 cents per gallon. Rhode Island (26 cents), Nebraska (23.71 cents), and Connecticut and Washington (23 cents) follow closely behind. Florida levies the lowest rate, 4 cents; but gasoline is also subject to a 6.9 percent general sales tax. Alaska and New York have the next lowest rates at 8 cents.

Cigarette Tax

Pennsylvania and the District of Columbia imposed the largest tax increases on cigarettes in the nation, jumping 13 cents to 31 cents and 30 cents per pack respectively. Minnesota tops the ranks with a 43 cent rate per pack but will soon fall to second when Connecticut's increase to 45 cents takes effect October 1, 1991. Other states with high rates include Texas (41 cents), New Jersey (40 cents), New York (39 cents) and Rhode Island and Maine (37 cents). Kentucky and North Carolina levy the lowest rates at 3 cents and 5 cents respectively. (See table on page 6 for more details.) ■

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